

Message Text

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PAGE 01 STATE 193319

67

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DRAFTED BY EA/IMS:DTKENNEY:CCH

APPROVED BY EA - MR. EDMOND

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C O N F I D E N T I A L STATE 193319

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SUBJECT: INDONESIA-JAPAN LNG TRANSPORTATION

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1. DEPUTY ASSISTANT SECRETARY EDMOND DISCUSSED CURRENT STATUS OF LNG NEGOTIATIONS AUGUST 3 WITH TIRTO UTOMO OF PERTAMINA. TIRTO REPORTED THAT NEXT NEGOTIATING SESSION WITH JAPANESE NOW SCHEDULED FOR AUGUST 15 IN TOKYO AND THAT TANGIBLE EVIDENCE OF GENERAL DYNAMICS PROGRESS IN CONSTRUCTING LNG SPHERES MIGHT BE CRITICAL AT THAT TIME FOR SATISFACTORY OUTCOME OF THE NEGOTIATIONS.

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PAGE 02 STATE 193319

2. EDMOND INDICATED US APPRECIATION FOR THE SKILLFUL ROLE

THAT WIJARSO AND THE PERTAMINA REPS HAD PLAYED IN THE NEGOTIATIONS. NOTING THAT THE USG NORMALLY DOES NOT BECOME INVOLVED IN COMMERCIAL CONTROVERSIES, EDMOND INDICATED THAT WE CONSIDERED THIS MUCH MORE THAN A SIMPLE COMMERCIAL PROBLEM. USG HAD, THROUGH MARITIME ADMINISTRATION, CONSIDERABLE FINANCIAL INTEREST IN THE COMPLETION OF THE TANKERS. MORE IMPORTANTLY, GENERAL DYNAMICS WAS A KEY COMPANY TO US BECAUSE OF ITS DEFENSE WORK. GENERAL DYNAMICS WOULD NOT GO OUT OF BUSINESS IF IT LOST THE CONTRACT, OF COURSE, BUT IT COULD BE IN SOME FINANCIAL DIFFICULTIES. WE WERE ALSO

CONCERNED ABOUT MAINTAINING THE QUINCY SHIPYARD -- BOTH FOR DEFENSE REASONS AND BECAUSE IT WAS IN AN AREA OF LABOR SURPLUS. WE ALSO HOPED THIS CONTRACT WOULD GIVE A BOOST TO US SHIPBUILDING -- AT LEAST TO THE EXTENT OF MAKING US SHIP CONSTRUCTION COMPETITIVE IN THE NEW AREA OF LNG TANKERS. EDMOND CONCLUDED BY REQUESTING TIRTO'S ASSESSMENT OF THE SITUATION AND ANY SUGGESTION AS TO WHAT THE USG MIGHT USEFULLY NOW DO.

3. TIRTO UTOMO GAVE A DETAILED ACCOUNT OF THE UNFORTUNATE HISTORY OF THE NEGOTIATIONS AS SEEN BY THE INDONESIANS. WITH REGARD TO FUTURE DEVELOPMENTS, HE SAID WIJARSO HAD MET BY CHANCE THE JAPANESE TEAM ON HIS FLIGHT FROM LOS ANGELES TO TOKYO AND HAD HAD DISCUSSIONS WITH THEM ON THE PLANE AND SUBSEQUENTLY THE NEXT DAY IN TOKYO REGARDING SCHEDULING FUTURE MEETINGS. WIJARSO HAD INDICATED BY TELEPHONE TO TIRTO THAT THE JAPANESE WERE PRESSING FOR ANOTHER MEETING AS SOON AS POSSIBLE AND WERE SUGGESTING AT LEAST SOME MODIFICATION IN THE JAPANESE POSITION. (APPARENTLY NEITHER WIJARSO NOR TIRTO COULD DETERMINE JUST WHAT MODIFICATIONS THE JAPANESE MIGHT HAVE IN MIND OR WHETHER SUCH SIGNALS FROM JAPANESE SIDE SHOULD BE CONSIDERED ENCOURAGING).

4. TIRTO SAID HE HAD ADVISED WIJARSO TO DELAY NEGOTIATIONS AS LONG AS POSSIBLE IN THE HOPE THAT THERE MIGHT BE SOME ENCOURAGING NEWS FROM GENERAL DYNAMICS. IT WAS AGREED THAT NEXT SESSION WOULD TAKE PLACE IN TOKYO ON AUGUST 15.

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PAGE 03 STATE 193319

5. TIRTO INDICATED THE MAIN PROBLEMS NOW WAS TO CONVINCE THE JAPANESE THAT THE GENERAL DYNAMICS SHIPYARD IN CHARLESTON COULD IN FACT SUCCESSFULLY CONSTRUCT THE LNG SPHERES. WHAT THE INDONESIANS NEEDED FOR THE AUGUST 15 MEETING, TIRTO STATED, WAS SOME TANGIBLE EVIDENCE THAT GENERAL DYNAMICS HAD SUCCESSFULLY OVERCOME THE TECHNICAL PROBLEMS. NOTING THAT GENERAL DYNAMICS HAD FAILED IN ITS FIRST TWO EFFORTS AT CONSTRUCTING A SPHERE AND THAT THE

THIRD SPHERE WAS QUESTIONABLE, TIRTO INDICATED IT WOULD BE HELPFUL IN WITHSTANDING JAPANESE PRESSURE IF GENERAL DYNAMICS OR BURMAH TANKERS COULD REPORT TO THE AUGUST 15 MEETING THAT THE FOURTH SPHERE HAD BEEN SUCCESSFULLY COMPLETED.

6. TIRTO INDICATED THAT THE JAPANESE APPEARED TO BE STILL PRESSING, AT A MINIMUM, FOR TWO NON-US BUILT TANKERS ON 20-YEAR LEASES. PERTAMINA WAS MAINTAINING THE POSITION THAT IF ITS CONTRACT WITH BURMAH TANKERS WAS BROKEN, THE JAPANESE SHOULD ASSUME RESPONSIBILITY FOR LEGAL CONSEQUENCES. WHILE NEVER SPELLED OUT, TIRTO APPEARED TO BE INDICATING THAT FAILURE OF GENERAL DYNAMICS TO PROVIDE "GOOD NEWS" AT AUGUST 15 MEETING COULD SERIOUSLY UNDERMINE PERTAMINA'S NEGOTIATING POSITION. TIRTO EXPRESSED HIS PERSONAL SUSPICION THAT MINISTER KOMOTO (MITI), WHOM HE DESCRIBED AS HAVING CLOSE TIES WITH PRIME MINISTER MIKI, WAS THE PRIME AUTHOR OF THE CURRENT HARD-LINE JAPANESE POSITION.

7. FOLLOWING THE MEETING, EDMOND RELAYED SUBSTANCE OF TIRTO'S COMMENTS TO BOARD CHAIRMAN DAVID LEWIS OF GENERAL DYNAMICS. LEWIS OBSERVED THAT THE AUGUST 15 DEADLINE GAVE GENERAL DYNAMICS VERY LITTLE TIME. HABIB

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